

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Montague
Contributory Retirement System
For the Three Year Period
January 1, 2000 - December 31, 2002
PERAC 02: 10-063-31**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	3
Statement Of Changes In Fund Balances	4
Statement Of Income	5
Statement Of Disbursements.....	6
Investment Income.....	7
Statement Of Allocation Of Investments Owned	8
Supplementary Investment Regulations	9
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	10
Note 2 - Significant Accounting Policies.....	11
Note 3 - Supplementary Membership Regulations.....	12
Note 4 - Administration Of The System	16
Note 5 - Actuarial Valuation And Assumptions	17
Note 6 - Membership Exhibit.....	18

May 18, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Montague** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Montague Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

1. Cash

- a. The Treasurer reconciles the expense bank account and also prepares and signs each expense check.
- b. The retirement system combines retiree payroll account balances and expense account balances into one general ledger account number 1040.
- c. The retirement system does not post interest in the current month. Interest is posted in subsequent months.

Recommendations:

- a. It is recommended that the Treasurer continue to reconcile the expense bank account; however, the Treasurer should not prepare the expense checks. The retirement system Administrator should prepare expense checks including transfer and refund checks and the Treasurer should continue signing the checks.
- b. The retirement system should use separate general ledger account numbers for each cash account.
- c. Generally accepted accounting principles (GAAP) require that interest be booked in the month it is earned.

Board Response:

- a. The Treasurer no longer prepares the expense checks. The Retirement Administrator now prepares the expense checks as well as the payroll, transfer, and refund checks. The Treasurer continues to sign all checks and reconcile the bank accounts.
- b. The Retirement System is in the process of combining the two cash accounts (payroll and expense) into one general ledger account. To be completed by July 1, 2004.
- c. As of January 2004, the Retirement System has been posting the interest in the current month.

Final Determination:

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Montague Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2002	2001	2000
Cash	\$5,134	\$28,856	\$76,791
PRIT Cash Fund	82,118	52,154	52,473
PRIT Core Fund	12,170,788	13,204,949	13,909,607
Accounts Receivable	6,454	0	0
Accounts Payable	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>\$12,264,494</u>	<u>\$13,285,959</u>	<u>\$14,038,871</u>
FUND BALANCES			
Annuity Savings Fund	\$3,910,839	\$3,695,596	\$3,530,471
Annuity Reserve Fund	1,167,696	1,071,927	1,059,648
Pension Fund	263,105	216,740	318,880
Military Service Fund	3,268	616	605
Expense Fund	0	0	0
Pension Reserve Fund	<u>6,919,586</u>	<u>8,301,080</u>	<u>9,129,267</u>
TOTAL	<u>\$12,264,494</u>	<u>\$13,285,959</u>	<u>\$14,038,871</u>

Montague Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$3,515,633	\$805,869	\$419,319	\$386	\$0	\$9,192,111	\$13,933,317
Receipts	519,981	27,743	778,355	219	122,401	(64,909)	1,383,790
Interfund Transfers	(345,557)	344,765	(1,273)	0	0	2,066	(0)
Disbursements	(159,586)	(118,728)	(877,521)	0	(122,401)	0	(1,278,236)
Ending Balance (2000)	3,530,471	1,059,648	318,880	605	0	9,129,267	14,038,871
Receipts	547,436	32,411	824,700	11	127,234	(833,769)	698,023
Interfund Transfers	(140,550)	134,968		0	0	5,582	0
Disbursements	(241,762)	(155,100)	(926,839)	0	(127,234)	0	(1,450,935)
Ending Balance (2001)	3,695,596	1,071,927	216,740	616	0	8,301,080	13,285,959
Receipts	507,335	31,770	991,282	2,652	140,326	(1,368,149)	305,217
Interfund Transfers	(202,226)	202,226	13,345	0	0	(13,345)	0
Disbursements	(89,866)	(138,227)	(958,262)	0	(140,326)	0	(1,326,682)
Ending Balance (2002)	<u>\$3,910,839</u>	<u>\$1,167,696</u>	<u>\$263,105</u>	<u>\$3,268</u>	<u>\$0</u>	<u>\$6,919,586</u>	<u>\$12,264,494</u>

Montague Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2002	2001	2000
Annuity Savings Fund:			
Members Deductions	\$426,574	\$415,299	\$403,061
Transfers from other Systems	19,220	36,813	43,284
Member Make Up Payments and Redeposits	8,795	31,541	5,539
Member Payments from Rollovers	2,294	0	0
Investment Income Credited to Member Accounts	50,452	63,783	68,098
Sub Total	<u>507,335</u>	<u>547,436</u>	<u>519,981</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>31,770</u>	<u>32,411</u>	<u>27,743</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	13,900	12,917	10,808
Received from Commonwealth for COLA and Survivor Benefits	65,321	63,505	74,864
Pension Fund Appropriation	<u>912,061</u>	<u>748,277</u>	<u>692,683</u>
Sub Total	<u>991,282</u>	<u>824,700</u>	<u>778,355</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	2,643	0	211
Investment Income Credited Military Service Fund	<u>9</u>	<u>11</u>	<u>8</u>
Sub Total	<u>2,652</u>	<u>11</u>	<u>219</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>140,326</u>	<u>127,234</u>	<u>122,401</u>
Sub Total	<u>140,326</u>	<u>127,234</u>	<u>122,401</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	2,040	6,146	13,879
Pension Reserve Appropriation	0	123,139	147,218
Interest Not Refunded	157	1,420	1,132
Excess Investment Income	<u>(1,370,345)</u>	<u>(964,474)</u>	<u>(227,138)</u>
Sub Total	<u>(1,368,149)</u>	<u>(833,769)</u>	<u>(64,909)</u>
TOTAL RECEIPTS	<u>\$305,217</u>	<u>\$698,023</u>	<u>\$1,383,790</u>

Montague Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2002	2001	2000
Refunds to Members	\$34,475	\$60,625	\$69,784
Transfers to other Systems	<u>55,391</u>	<u>181,137</u>	<u>89,802</u>
Sub Total	<u>89,866</u>	<u>241,762</u>	<u>159,586</u>
Annuity Reserve Fund:			
Annuities Paid	133,075	130,214	118,728
Option B Refunds	<u>5,153</u>	<u>24,887</u>	<u>0</u>
Sub Total	<u>138,227</u>	<u>155,100</u>	<u>118,728</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	636,243	597,411	572,443
Survivorship Payments	54,664	59,677	42,252
Ordinary Disability Payments	15,421	13,936	3,589
Accidental Disability Payments	131,039	138,398	137,546
Accidental Death Payments	59,045	58,917	63,034
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	61,849	58,500	58,656
Sub Total	<u>958,262</u>	<u>926,839</u>	<u>877,521</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	51,649	49,567	47,142
Legal Expenses	2,339	2,058	1,148
Fiduciary Insurance	2,608	0	0
Travel Expenses	2,938	2,166	3,968
Administrative Expenses	20,662	19,725	18,034
Furniture and Equipment	8,261	0	0
Management Fees	51,870	53,718	52,110
Custodial Fees	0		
Consultant Fees	<u>0</u>		
Sub Total	<u>140,326</u>	<u>127,234</u>	<u>122,401</u>
TOTAL DISBURSEMENTS	<u>\$1,326,682</u>	<u>\$1,450,935</u>	<u>\$1,278,236</u>

Montague Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2002	2001	2000
Investment Income Received From:			
Cash	\$540	\$1,223	\$1,711
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	<u>413,599</u>	<u>440,063</u>	<u>597,500</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>414,139</u>	<u>441,286</u>	<u>599,211</u>
Plus:			
Realized Gains	18,441	92,162	1,142,404
Unrealized Gains	1,338,719	1,760,686	1,587,781
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,357,159</u>	<u>1,852,848</u>	<u>2,730,185</u>
Less:			
Realized Loss	(397,139)	(169,459)	0
Unrealized Loss	(2,521,947)	(2,865,710)	(3,338,285)
Sub Total	<u>(2,919,086)</u>	<u>(3,035,169)</u>	<u>(3,338,285)</u>
NET INVESTMENT INCOME	<u>(1,147,788)</u>	<u>(741,035)</u>	<u>(8,889)</u>
Income Required:			
Annuity Savings Fund	50,452	63,783	68,098
Annuity Reserve Fund	31,770	32,411	27,743
Military Service Fund	9	11	8
Expense Fund	<u>140,326</u>	<u>127,234</u>	<u>122,401</u>
TOTAL INCOME REQUIRED	<u>222,557</u>	<u>223,438</u>	<u>218,250</u>
Net Investment Income	<u>(1,147,788)</u>	<u>(741,035)</u>	<u>(8,889)</u>
Less: Total Income Required	<u>222,557</u>	<u>223,438</u>	<u>218,250</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$1,370,345)</u>	<u>(\$964,474)</u>	<u>(\$227,139)</u>

Montague Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*	
Cash	\$5,134	0.04%	100	
PRIT Cash Fund	82,118	0.67%		
PRIT Core Fund	<u>12,170,788</u>	<u>99.29%</u>	100	
GRAND TOTALS	<u>\$12,258,040</u>	<u>100.00%</u>		

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Montague** Retirement System was -8.90%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Montague** Retirement System averaged 4.05%. For the seventeen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Montague** Retirement System was 9.47%.

Montague Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

The **Montague** Retirement System has not submitted any supplementary investment regulations.

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Montague** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Montague** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

March 19, 1991

Membership

1. All employees must be considered regular employees to be eligible for membership in the retirement system. Temporary, seasonal or intermittent employees are not eligible for membership. Part time employees who work a minimum of twenty hours a week must become members of the system.

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREEYEAR PERIOD ENDING DECEMBER 31, 2002

2. Temporary employees who become permanent employees shall have the option of buying back their time worked as temporary employees.
3. Any waiting period for retirement purposes shall be deemed as having begun at the original date of hire or the date when the employee began working twenty or more hours a week, whichever is earlier.

Creditable service

1. Full time employees will receive one full year of creditable service for each year employed.
2. Employees who work a minimum of thirty five hours per week will be considered full time
3. Part time employees whose positions have always been part time are granted full creditable service for each year employed
4. A part time employee who becomes full time will have the part time service prorated based on the normal hours for that department.
5. Upon becoming a member, an employee may buy back time worked at less than 20 hours per week, when ineligible for membership.

Creditable service for call fire fighters and reserve police officers The Board shall credit as full time service not to exceed five years that period of time during which a reserve or intermittent police officer or a reserve, permanent intermittent or call fire fighter was on his respective list and was eligible for assignment to duty subsequent to his appointment. Such service as a reserve permanent intermittent or call fire fighter shall be credited only if later appointed as a permanent member of the fire department.

Membership and creditable service for school employees

1. Cafeteria workers and Teacher Aides who are regularly employed working a full school year for a minimum of twenty hours a week and are permanent employees with a stated hourly or weekly rate of compensation must become members of the system. An exception is granted to teacher Aides hired prior to September, 1985.
2. School employees who work the full school year receive one full year of creditable service.

Miscellaneous provisions

1. The Board will elect officers annually at the August or September meeting and within 60 days of the chairman leaving the Board.
2. Employees on an unpaid leave of absence (who are not receiving workers' compensation) will not receive creditable service time for the leave of absence. Members will receive full service credit for a fully compensated leave of absence. Those members who are granted partial compensation for a leave of absence will receive partial service credit. **AMMENDED 5/11/98.**

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREEYEAR PERIOD ENDING DECEMBER 31, 2002

3. Health insurance, life insurance, unemployment and workers' compensation benefits for retirement board staff shall be in conjunction with those of the Town of Montague. In lieu of the added expense to the Board to be passed on to the members of the system, the Board shall allow direct payment by the Town of Montague for staff benefits.

January 19, 1996

Disability benefit/accidental death benefit determination

Process Series of rules for conduct of Board hearings in disability retirement and accidental death cases. Board to designate a hearing officer to conduct such hearings, etc.

December 16, 1996

Veterans' buybacks

The buy back requirement for eligible members pertaining to chapter 71 of the acts of 1996 shall be payable in one lump sum and paid within five years of the date of application.

March 27, 1997

Veterans' buybacks

If a dual service veteran requests a buy-back under the provisions of chapter 71 of the acts of 1996, and that veteran is a full-time employee within the Montague Retirement System (MRS) (or has a majority of his/her hours within our system), the MRS will offer to have the buy-back made to the MRS. If the veteran is a full time employee within another retirement system which has accepted the provisions of chapter 71 (or has a majority of his/her current hours in that system), the MRS will request that the buy-back be made to the other retirement system.

May 11, 1998 Creditable service

Members on an unpaid leave of absence (who are not receiving workers' compensation) will receive up to one-month creditable service for the leave of absence. Members will receive full service credit for a fully compensated leave of absence. Those members who are granted partial compensation for a leave of absence will receive partial service credit. This provision is retroactive to January 1, 1997.

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREEYEAR PERIOD ENDING DECEMBER 31, 2002

May 12, 2000 Creditable Service

2 – Prorating creditable service for part time employment. Upon becoming a member, an employee may buy back time worked at less than twenty hours per week, when ineligible for membership. Prorating of part time creditable service (less than twenty hours per week) shall be based on full time equivalency of twenty hours per week.

3 – Prorating creditable service for part time employment. Temporary employees who become permanent employees shall have the option of buying back their time worked as temporary employees with this service prorated based on the actual hours worked (see creditable service #2).

September 19, 2000 Repayments of erroneous benefits

The board will allow repayment of erroneous benefits either by lump sum payment or monthly payments. If monthly payments are chosen, the repayment period may not exceed the length of time over which the erroneous payment was made.

March 5, 2002 Military Substitutes

All temporary military substitutes who are appointed for one year or more to fill a position of a member on military leave are eligible for membership upon appointment. All temporary military substitutes who are {initially} appointed for less than one year shall become a member when employed in that position for one year or more. A temporary military substitute who did not become a member upon appointment shall have the option of buying back their time worked to the original date of appointment.

January 22, 2003

Travel regulations approved by PERAC are on file.

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Carolyn Olsen

Appointed Member: Frank Abbondanzio Term Expires: 03/24/06

Elected Member: David R. Dion Term Expires: 05/31/04

Elected Member: Marianne Fisk Term Expires: 12/17/05

Appointed Member: Marilyn Matysiewicz Term Expires: 01/06/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000 Fiduciary Liability
Elected Member:)	Travelers/Federal/Executive
Appointed Member:)	
Staff Employee:)	

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Stone Consulting, Inc.** as of **January 1, 2002**.

The actuarial liability for active members was	\$10,853,379
The actuarial liability for inactive members was	235,627
The actuarial liability for retired members and beneficiaries was	<u>9,372,560</u>
The total actuarial liability was	20,461,566
System assets as of that date were	<u>13,285,959</u>
The unfunded actuarial liability was	<u>\$7,175,607</u>
The ratio of system's assets to total actuarial liability was	64.9%
As of that date the total covered employee payroll was	<u>\$5,006,680</u>

The normal cost for employees on that date was 8.10% of payroll

The normal cost for the employer was 4.90% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 13,285,959	\$ 20,461,566	\$ 7,175,607	64.9%	\$ 5,006,680	143.3%
1/1/2000	\$ 13,933,317	\$ 18,247,478	\$ 4,314,161	76.4%	\$ 4,875,510	88.5%
1/1/1998	\$ 9,382,000	\$ 15,525,000	\$ 6,143,000	60.4%	\$ 4,151,000	148.0%
1/1/1995	\$ 5,230,000	\$ 10,664,000	\$ 5,434,000	49.0%	\$ 3,316,000	163.9%

Montague Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	3	4	3	5	1	1	3	8	1	5
Ordinary Disability		0	0	0	0	0	1	0	1	0
Accidental Disability	0	0	0	1	1	0	0	0	0	0
Total Retirements	3	4	3	6	2	1	4	8	2	5
Total Retirees, Beneficiaries and Survivors	93	88	90	93	91	94	99	103	96	94
Total Active Members	174	189	195	186	241	243	233	254	237	229
Pension Payments										
Superannuation	\$465,993	\$477,983	\$481,004	\$487,267	\$491,265	\$471,730	\$474,977	\$572,443	\$597,411	\$636,243
Survivor/Beneficiary Payments	6,925	7,045	7,165	7,206	36,800	40,182	41,382	42,252	59,677	54,664
Ordinary Disability	45,902	46,359	46,817	92,611	2,162	0	1,640	3,589	13,936	15,421
Accidental Disability	18,911	20,791	25,771	32,751	81,554	100,369	101,296	137,546	138,398	131,039
Other	<u>107,174</u>	<u>119,021</u>	<u>119,187</u>	<u>111,951</u>	<u>122,042</u>	<u>125,478</u>	<u>122,130</u>	<u>121,691</u>	<u>117,417</u>	<u>120,895</u>
Total Payments for Year	<u>\$644,905</u>	<u>\$671,199</u>	<u>\$679,944</u>	<u>\$731,786</u>	<u>\$733,823</u>	<u>\$737,759</u>	<u>\$741,425</u>	<u>\$877,521</u>	<u>\$926,839</u>	<u>\$958,262</u>